

**Senior Service College Fellowship  
Civilians Research Project**

**"KEEP DRIVING"  
AN ASSESSMENT OF THE  
AFGHAN DEVELOPMENT  
PROGRAM**

BY

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USAWC CIVILIAN RESEARCH PROJECT

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by

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## ABSTRACT

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A large body of literature has focused on the establishment of the necessary security conditions that will convince the people of Afghanistan to support the GIRoA. Yet there is more too creating stability for a state in conflict or emerging from conflict than merely establishing security. There is a need for increases in development programs which require both military and civilian assistance. Civilians must partner with host nations to establish capacity of national and sub-national government institutions and to help rehabilitate key economic sectors. This will help the government defeat insurgents who promise only violence. Growth is critical to undermine extremists' appeal in the short term and for sustainable economic development in the long term. A focus on development is an excellent way to expand our analysis and assessment of Afghan polices. Using the United States Institute for Peace (USIP) model for stability and reconstruction development, we can look at there are five key areas and seven cross cutting principles that should be addressed in developing a strategy and policy for stability operations. The key areas are: creating a safe and secure environment, developing a sustainable economy, stable governance, social well being, and rule of law. This paper will review one key area for improving conditions in Afghanistan, developing a sustainable economy, and identify how policy can be modified or improved. The developmental effort is important to create opportunities for a better future people of Afghanistan, but

equally important to donors and host nations during stability operations since development will limit insurgent opportunities and narratives. Through improved employment, markets, and infrastructure, Afghans will gain a greater appreciation for their government, legitimizing the state. As the state becomes more legitimate, security will improve and state functions stabilized, eventually leading to national growth and sovereignty.

## “KEEP DRIVING” AN ASSESSMENT OF THE AFGHAN DEVELOPMENT PROGRAM

### Introduction

After nearly 10 years of conflict and support to Government of the Islamic Republic of Afghanistan (GIRoA), advocates and adversaries of the U.S. policy in Afghanistan are questioning if the operations in support of GIRoA can be successful. Do operations to defeat the Taliban and develop GIRoA meet our vital national interest and do our actions have the necessary weight to continue strategies that require sacrifice of our service members and our treasury when positive results seem in doubt? These questions have raised the level of inquiry the Afghan mission and spurred research to determine if the U.S. has an adequate plan to defeat insurgents and fully support GIRoAs effort to rebuild. A large body of literature has focused on the establishment of the necessary security conditions that will convince the people of Afghanistan to support the GIRoA.

Yet there is more too creating stability for a state in conflict or emerging from conflict than merely establishing security. President Obama noted that in addition to security, there is a need for increases in development programs which require civilian assistance and said, “....a continuing significant increase in civilian experts will accompany a sizable infusion of additional civilian assistance. They will partner with Afghans over the long term to enhance the capacity of national and sub-national government institutions and to help rehabilitate Afghanistan’s key economic sectors so that Afghans can defeat the insurgents who promise only more violence. Growth is critical to undermine extremists’ appeal in the short term and for sustainable economic development in the long term.”<sup>1</sup> This focus on development is also clearly stated as part of our national policy identified by the President in the National Security Strategy. This focus on development is an excellent way to expand our analysis and assessment of Afghan polices in accordance with established stability and security frameworks.

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<sup>1</sup>“Fact Sheet: The Way forward in Afghanistan,” The White House Office of the Press Secretary December 01, 2009 accessed at <http://www.whitehouse.gov/the-press-office/way-forward-afghanistan>

As noted in the United States Institute for Peace (USIP) model for stability and reconstruction development, there are five key areas and seven cross cutting principles that should be addressed in developing a strategy and policy for stability operations. The key areas are: creating a safe and secure environment, developing a sustainable economy, stable governance, social well being, and rule of law<sup>2</sup>. This paper will review one key area for improving conditions in Afghanistan, developing a sustainable economy, and identify how policy can be modified or improved. The developmental effort is important to create opportunities for a better future people of Afghanistan, but equally important to donors and host nations during stability operations since development will limit insurgent opportunities and narratives. Through improved employment, markets, and infrastructure, Afghans will gain a greater appreciation for their government, legitimizing the state. As the state becomes more legitimate, security will improve and state functions stabilized, eventually leading to national growth and sovereignty.

### Policies and Programs

While the US policy to develop a sustainable economy briefs well to the international media and Non Governmental Organizations, it is much more difficult to define and execute. Difficult enough, that the U.S. State department has almost nothing to say about economic development except in policy speeches where leaders say the U.S. is fully supporting the development of sustainable economy.

US AID also has no single document that describes their overall goals to support GIRoAs economic development. However, USAID does have general guidelines to manage development programs that are the doctrinal basis for their work in Afghanistan. The guidelines can be found in the department's publication "A Guide to Economic Growth in Post Conflict Countries." The doctrine manual includes developmental ideas on microeconomic, employment generation, infrastructure, agriculture, banking and finance, private sector development and

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<sup>2</sup> "Guiding Principles for Stabilization and Reconstruction," United States Institute of Peace and United States Army Peacekeeping and Stability Operations Institute, 1200 17<sup>th</sup> St NW Washington DC 20036, 2-8.

international trade<sup>3</sup>. All these topics are wrapped in the USAIDs new paradigm or vision, that they must be involved early in post conflict development and that their pragmatic efforts must be wedded to addressing the root causes of the conflict in order to encourage host country ownership.<sup>4</sup> The Department thus has many programs that support their doctrinal approach to development, as they note on their Web Site where they outline programs for economic growth that include development of:

- Reliable infrastructure and energy networks
- Reliable, affordable power ... to a sustaining private sector
- Revitalizing Afghanistan's rural economy.
- (Reliable) access to water
- Access to improved technologies and financial services for farmers
- Increase revenue collection, improve the legal and regulatory framework to increase private sector investment,
- Government's skills to manage the economy.<sup>5</sup>

The department has also published a series of articles that is, "Telling our Story," which gives examples of US AID work that improves infrastructure, agriculture or markets in support of their doctrinal goals. These snippets are short paragraphs that show progress in Afghanistan but do not place the development in a larger strategic context. For example the story discussing new paved roads in Ghazni notes new roads improves transportation timelines, increase market activity, promotes social interaction and facilitates security because it allows forces to move faster to emergencies, but it does not show how USAID efforts are leading or integrated with other US agencies.<sup>6</sup>

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<sup>3</sup> USAID, "A Guide to Economic Growth in Post-Conflict Countries", Office of Economic Growth, Bureau for Economic Growth, Agriculture and Trade, January 2009, IV.

<sup>4</sup> USAID, "A Guide to Economic Growth in Post-Conflict Countries", VI.

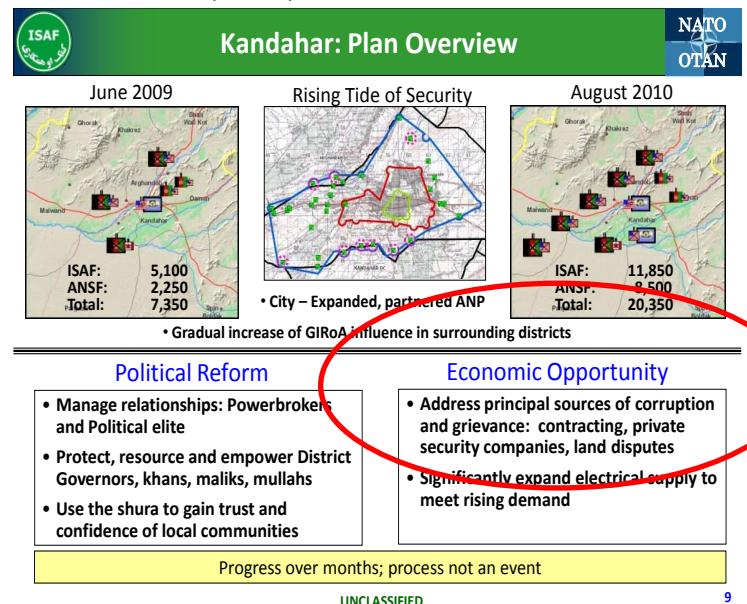
<sup>5</sup> "Afghanistan Country Overview" USAID Website online at <http://www.usaid.gov/locations/asia/countries/afghanistan/index.html>

<sup>6</sup> USAID, Telling our Story, "Paved Road to Lead Way to Development" accessed on [http://www.usaid.gov/stories/afghanistan/ba\\_afg\\_road.html](http://www.usaid.gov/stories/afghanistan/ba_afg_road.html).

The economic development goals identified by GIRoA are articulated in the London communiqué and include increasing tax and customs revenues, restructuring public enterprises in order to ensure greater accountability and efficiency; continuing regulatory reforms including implementation of the new mining regulations and pursuing the Road Map of the 2007 Enabling Environment Conference as reflected in the Afghan National development Strategy (ANDS).<sup>7</sup>

These planning efforts led to an updated National Development Strategy for 2010-2013 published by GIRoA after the Kabul International Conference on Afghanistan on 20 July, 2010. The document clearly outlines poverty reducing objectives, consolidating infrastructure development plans on fewer large scale programs while concentrating on prioritized projects that will material improve the people of Afghanistan's lives, and reducing corruption to facilitate delivery of aid and services to GIRoA.<sup>8</sup>

The International Security Assistance Force (ISAF) also seeks to develop economic stability. In the summer of 2009 it changed its strategy to Counter Insurgency (COIN) formally adding development of the local economy to its tasks.<sup>9</sup> Economic stability is a key element of the COIN doctrine and the militaries effort to support development continues today. The ISAF Commander regularly assess economic opportunities across Afghanistan and makes development and sustainability part of the



<sup>7</sup> "Communiqué: Afghan Leadership, Region Cooperation, International Partnership," The London Conference, 28 January 2011, 5.

<sup>8</sup> Afghanistan National Development Strategy: Prioritization and Implementation Plan Mid 2010 – Mid 2013; VOL I," Kabul International Conference of Afghanistan 20 July 2010, 4.

<sup>9</sup> FM 3-07.22, "Counterinsurgency Operations", HQDA, Washington DC, 65 October 2006 , 2-4.

whole of government approach to operations in support of GIRoA as seen in the briefing slide published in during the summer of 2010.<sup>10</sup>

### Analysis Framework

As international leaders applied a renewed focus on developing a sustainable economy, including increase resources from donor nations, leaders across Afghanistan were pledging increased support of operations. In short many leaders identified cross cutting principles from our model as a primary issue to establishing a sustainable economy. As Ambassador Eikenberry noted in a web chat with local Afghans in December of 2009, “The quality of the cabinet leadership will have a major impact on the amount of progress the Government of Afghanistan achieves over the next six months. Much developmental assistance money will be provided in the months ahead. Good ministers will achieve better results. Unqualified and unaccountable ministers will waste valuable and limited funds, deprive the Afghan people of their economic aspirations, and discourage future international plans to increase investments in Afghanistan. This is especially important in key sectors such as finance, commerce, agriculture, transportation, mining, health, education, rural reconstruction & development, and energy.<sup>11</sup> The ability to maintain effective leadership in critical positions in GIRoA is a cross cutting stability issue as it ensures the continuity of ministry development and should enable the proper functioning of budget and oversight programs that facilitate the functioning economy. Likewise, if there are officers in GIRoA that cannot meet the requirements of their office, they must be removed in order to allow more capable people step in to effectively run the respective ministry.

Our framework for analysis begins with the key task: ensuring the development of Macro Economic Stabilization. This includes effectively creating

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<sup>10</sup> Stan McChrystal, General, “ COMISFA Campaign Overview: NATO and ISAF Defense Minister” International Security Assistance Force and U.S. Forces, Afghanistan, June 2010, slide 9.

<sup>11</sup>Carl Eikenberry, “WEBCHAT TRANSCRIPT ON U.S. POLICY ON AFGHANISTAN WITH U.S. AMBASSADOR KARL W. EIKENBERRY AND DEPUTY AMBASSADOR FRANCIS RICCIARDONE” online at [http://kabul.usembassy.gov/webchat\\_tran\\_1217.html](http://kabul.usembassy.gov/webchat_tran_1217.html) 17 December 2009.

or updating monetary and fiscal policy that align currencies, manage inflation, and develops accountability systems for public financial management.<sup>12</sup>

Accountability is the greatest single issue in GIRoA. Corruption headlines have been pouring onto the front pages of donor nations for the past few years. Unfortunately, GIRoA seems unwilling to seriously attack the corruption in the government and in its governing bodies as witnessed during the summer of 2010 when the Kabul bank had to be rescued and President Karzai felt compelled to stop a separate corruption investigation by donor nations before more diplomatic discourse could continue.<sup>13</sup>

There is another way to view the reluctance of GIRoA to deal with the corruption in their system. The corruption may actually be proof of improving economic activity which leads to individuals attempting to take over the system and make or steal money before regulation makes it difficult. Thus, the theory is corruption may actually, “be amplified by the new wealth, particularly if a handful of well-connected oligarchs, some with personal ties to the president, gain control of the resources. Just last year, Afghanistan’s minister of mines was accused by American officials of accepting a \$30 million bribe to award China the rights to develop its copper mine. The minister has since been replaced.”<sup>14</sup>

But no matter how you assess GIRoAs ability to manage their affairs, it is necessary to continue to build the bureaucracy, and to impart to the civilians running the government the necessary skills to exercise regulatory authority over the private sector. This capacity building is a time consuming objective and slowly donor and NGO leaders are identifying an increasing number of Afghan Ministers who are responsible, corruption free and are building staff capacity capable of allocating funds more effectively. It is imperative that GIRoA retain these people, and recruit young capable civil servants to replace the current

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<sup>12</sup> “Guiding Principles for Stabilization and Reconstruction,” 9-133.

<sup>13</sup> Rod Nordland and Mark Mazzetti “Graft Dispute in Afghanistan if Test for U.S.” NT Times accessed at <http://www.nytimes.com/2010/08/24/world/asia/24karzai.html?scp=7&sq=afghanistan%20corruption&t=cse>, 23 August 2010.

<sup>14</sup> JAMES RISEN “U.S. Identifies Vast Mineral Riches in Afghanistan” The New Your Times accessed <<http://www.nytimes.com/2010/06/14/world/asia/14minerals.html?scp=2&sq=Afghanistan+economic+d+development+programs&st=nyt>> June 13, 2010

batch of leaders. GIRoA needs to fight for the talent with the much higher-paying donor nation government agencies and contractors. Donors need to recognize their role on developing government and channel talent into the ministries to position the next generation of leaders. In this way, the Afghan economy, encompassing both public as well as private sectors, will expand capacity and sustainability.

Yet, the inability to stamp out or just minimize corruption is a negative anchor on investment and economic stability for Afghanistan. Donor nations expect the resources to be put to good use for the betterment of GIRoA. Donors expect their assets are used to set the necessary preconditions for the development of good government. And it is hoped the money will create, as Don Ritter noted at the Iraqi - Afghan Development Summit, “that wide distribution of wealth-creating entities and commerce (that) preceded good government and not vice versa as is commonly believed.<sup>15</sup>

One of those wealth-creating entities is a Bank Market. International efforts to establish banks are meant to create private incentive for Business. Banks make money by lending money to business for expansion, charging interest for the loans and passing some of those profits on interest to account holders. This allows businesses to get loans and expand within a system that is supportive rather than extortionists in nature and thus expansion is more regulated and less risky. Therefore, bank market development and a corresponding capital market in Afghanistan are necessary. Basic laws and regulations required for banking operation and lending activities were established in 2003 and in early 2004. The rules are based in the Da Afghanistan Bank Law, which was introduced in February 2004. With the help of the international community and donors, DAB is developing the capacity to carry out bank supervision and monetary policy operations. In short, the central bank registers, regulates and monitors commercial banks.<sup>16</sup> Fortunately, the bank market is in

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<sup>15</sup> Don Ritter, Sc.D. Hon , "Building the Afghan Market economy" presented at the Iraq and Afghanistan Reconstruction Summit, Istanbul, Turkey 3 June 2010, 1.

<sup>16</sup> Jelena Pavlović and Joshua Charap, "Development of the Commercial Banking System in Afghanistan: Risks and Rewards" IMF Working Paper, July 2009,6.

place and developing despite deficiencies in the governing framework -- notably regulation enforcement. As of March 2008 there were 16 licensed commercial banks that were supervised by the central bank. Unfortunately, these banks have widely different approaches to lending: at one extreme are banks that have negligible lending activity, while others have a large portfolio of loans to domestic businesses.<sup>17</sup> Banks with conservative lending practices turn a profit, but fail to spur small business growth. These banks generally support the ultra rich and should be safe. However, nothing is guaranteed; Kabul Bank recently failed and had to be saved, likely due to corruptions and ledger fixing. Banks that have freer lending practices take so many risks that they too end up being creative in their accounting measure to establish enough cash on hand to remain solvent, thus limiting their ability to support small entrepreneurs. The result is a market that on paper is growing, but that is not actually fulfilling the desired end state of spurring small business. While this market is extremely flawed, regulations are starting to take effect and should yield great loans and a better credit market. One example of the market's recent success in regulation is also one of this summer's largest public relations fiascos, the Kabul Bank failure. Great regulation likely forced better oversight and a deeper review of the bank's books which resulted in the identified risks and crisis. This might be a backhanded compliment, but it might also be progress.

GIRoA has made improvements in other areas of financial regulation. The International Monetary Fund (IMF) noted that regulations governing land rights and access are improving. This contentious area is especially difficult because of historic and tribal issues. The past few Afghan governments had difficulty in land management which has resulted in few available records of land ownership and transactions. Tribes managed "their" land. GIRoA is slowly working through these management / rights issues with the enactment of the Land Management

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<sup>17</sup> Jelena Pavlović and Joshua Charap, "Development of the Commercial Banking System in Afghanistan: Risks and Rewards" IMF Working Paper, July 2009,5.

Law in 2008 and the completion of an Industrial Park Strategy. The IMF noted the land management / rights issue is crucial to business development.<sup>18</sup>

Lastly, GIRoA is developing budgets that are in line with the ANDS. This progress was harder than anticipated. Politics and corruption often derailed programs that would support the ANDS. Security efforts also challenged broad implementation of development plans. But where development occurred and followed the ANDS, GIRoA has seen success. In support of this success, donor operations have moved more in line with the general ANDS.<sup>19</sup> Thus, the new Medium-Term Fiscal Framework (MTFF) is in line with economic policies outlined in the Poverty Reduction and Growth Facility (PRGF) program. However, all programs are still reactive rather than proactive and lack predictability over the medium-term. To create long term predictability the IMF noted that progress in making the budget the central implementation tool for the ANDS was essential to improvement in GIRoAs development programs. By taking this one step, GIRoA could strengthen the MTFF.<sup>20</sup>

The Good news is these developments have improved the ability of GIRoA to create conditions for Macroeconomic Stabilization. Donors are fully aligned with GIRoA on development leading to a single purpose of economic stabilization.<sup>21</sup> This has yielded marginal increases in financing and access to credit is on the rise – and business owners are requesting additional credit.<sup>22</sup> Now that regulations are established and economic frameworks are in place, the GIRoA system should see improved activity. While GIRoAs largest challenge is corruption, perhaps there is progress in minimizing corruption as the potential failure of the Kabul bank occurred because there is now sufficient oversight and regulation to identify and report on issues. With better regulation, the next two

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<sup>18</sup> "Afghanistan: Joint Staff Advisory Note" International Monetary Fund, 7.

<sup>19</sup> "Comprehensive Plan for USG support to Wardak Province 2009 2012," Combined Report from ISAF, Combined Security Transition Command, Regional Command East, USAID and US Embassy Afghanistan, November 2009, 15.

<sup>20</sup> "Afghanistan: Joint Staff Advisory Note" International Monetary Fund IMF Country Report N, 5.o. 10/39 International Monetary Fund Publication Services, 700 19th Street, N.W. • Washington, D.C. 20431, February 2010 IMF Country Report No. 10/39

<sup>21</sup> "Promoting Economic Growth in Afghanistan" White Paper y Economic Policy Group/EG Strategy Summary Final, for US AMB Eikenberry 2009, 1.

<sup>22</sup> Afghan Investment Climate, The World Bank, 42.

years should see improved banking and financial interaction make its way to the provinces and districts of Afghanistan.

#### Control over illicit economy and economic based threats to peace

Our next necessary condition for success envisions reducing predatory economic actors from causing harm to the economy of the state and reducing state legitimacy.<sup>23</sup> Bad actors will use terror, coercion, illegal trafficking, extortion, and hijacking of enterprises to destabilize the economy and the state. To manage the forces of an illicit economy the state must take a comprehensive approach to development including how money moves in formal and informal ways and how resources are managed. Lastly, there has to be an effort to strengthen the government's capacity to manage all these areas, and then to reintegrate ex-combatants within the capacity of the state to provide economic opportunities for all.

Managing these illicit issues come down to government capacity to improve (1) weak policy enforcement; (2) poor provision of electricity; (3) crime, theft and disorder reduction(4) corruption; (5) access to land; and (6) access to finance. These concerns have been identified as recurring concerns by the IMF since 2005<sup>24</sup>. GIRoA has dealt with deterioration in policy enforcement and security related to crime, theft, and disorder by recommitting to reduce poverty, ensure sustainable development through a private-sector-led market economy, improve human development indicators, and make significant progress towards the Millennium Development Goals (MDGs).<sup>25</sup> These are great ideas on paper, but need to find a life in execution, especially in the enforcement. Therefore, massive improvements in regulating, policing, and prosecuting violations are necessary to establish economic boundaries that everyone must and can act within. These concepts support Economic development, and development of the Rule of Law.

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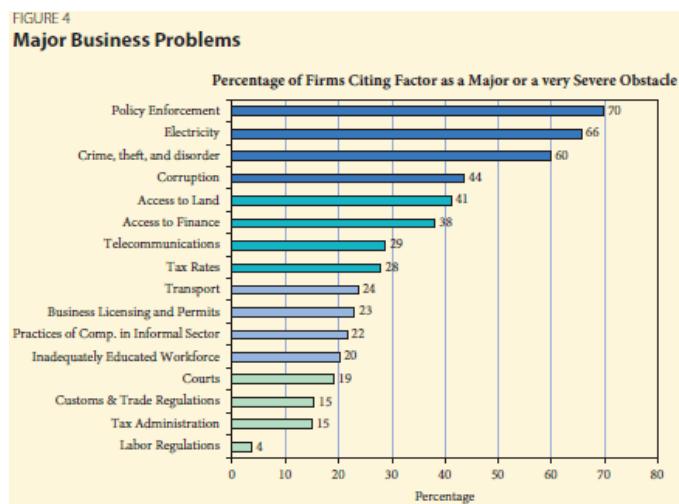
<sup>23</sup> "Guiding Principles for Stabilization and Reconstruction," 9-143.

<sup>24</sup> "Afghan Investment Climate", The World Bank, VII.

<sup>25</sup> Afghanistan National Development Strategy: Prioritization and Implementation Plan Mid 2010 – Mid 2013; VOL I," Kabul International Conference of Afghanistan 20 July 2010, I.

The World Bank has developed a survey to measure, monitor and evaluate the economic and business climate in Afghanistan. The survey identified business' greatest concerns that threaten development as:

- Policy Enforcement
- Electricity
- Crime, theft, and disorder
- Corruption<sup>26</sup>

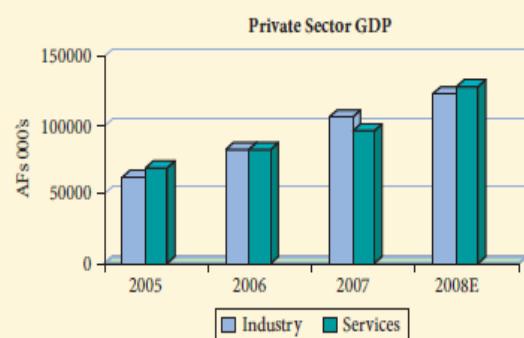


Three of the top concerns directly deal with establishing Rule of Law or ensuring the GIRoA can establish control over the illicit economy and are cross cutting ideas in our model. These concerns inhibit growth and development, and give strength to insurgents that seek to disrupt economic activity as a way to show GIRoA is incapable of governing. While regulations and laws are slowing being passed, and in the security realm, Police training is improving, enforcement of anti-corruption efforts are essential to the development of Afghanistan. Donors need to invest in developing civil servants with the capacity to identify the corruption and then GIRoA must prosecute violators to develop long term trust of the people. In this way corruption will be stamped out and development can expand.

### Market Economy Sustainability

Market Economy Stability is defined as an environment where the economy is allowed to thrive, infrastructure is rebuilt and human capital is developed.<sup>27</sup> When the market economy provides sustainable

**FIGURE 3  
Growth in Private Sector GDP**



Source: Afghanistan Central Statistics Office.

<sup>26</sup> Afghan Investment Climate, The World Bank, 8.

<sup>27</sup> "Guiding Principles for Stabilization and Reconstruction," 9-133.

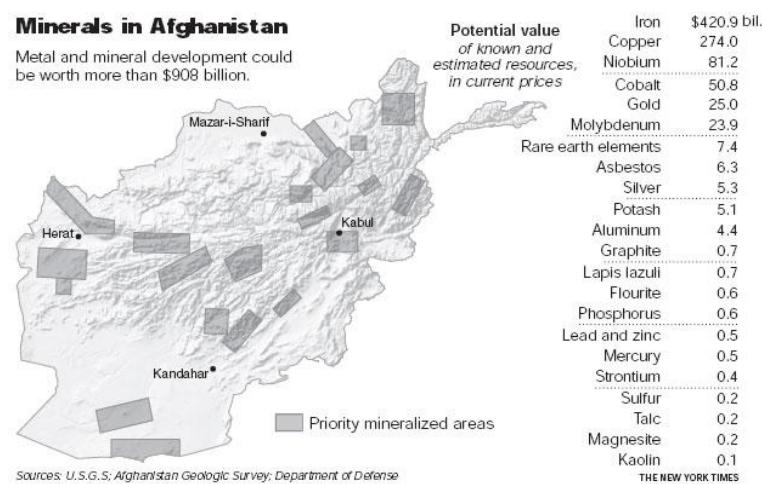
employment and positioned to expand we will achieve success. A market is therefore the basis for a society to feed, clothe and house itself. Therefore, the development of the market and the corresponding commerce is essential to the development of a democratic form of Government.<sup>28</sup>

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The Afghanistan surveys also show Afghan business has been growing and continues to grow.<sup>30</sup> There is growth in almost all sectors of the economy. Foreign aid is surely sparking the development, but there is also massive growth in mineral, construction, and technological sectors that are observable throughout the country.

In the mineral sector there has been much work done on the Anynak mine with the rights to Afghans largest copper reserves being sold to a Chinese company. There is also a large effort to establish marble quarry operations, after much of the know marble was deemed equal to or better in quality than the Carrere Mabel from Italy. Perhaps the largest news in this market came out this past summer as scientists confirmed “previously unknown” deposits of minerals — including huge veins of iron, copper, cobalt, gold and critical industrial metals like lithium — are so big that they may be able to transform Afghanistan into one of the most important mining centers in the world.<sup>31</sup>

The tragedy here is the inability to get the information out to investors. The Soviet Union identified the massive mineral resources when they occupied the country in the



<sup>28</sup> Don Ritter, Sc.D. Hon , ”Building the Afghan Market economy” presented at the Iraq and Afghanistan Reconstruction Summit, Istanbul, Turkey 3 June 2010.

<sup>29</sup> Afghan Investment Climate, The World Bank, 6.

<sup>30</sup> “Afghanistan Investment Climate in 2008” The World Bank,7.

<sup>31</sup> [JAMES RISEN](http://www.nytimes.com/2010/06/14/world/asia/14minerals.html?ref=james_risen) “U.S. Identifies Vast Mineral Riches in Afghanistan” June 1, 2010 accessed at [http://www.nytimes.com/2010/06/14/world/asia/14minerals.html?ref=james\\_risen](http://www.nytimes.com/2010/06/14/world/asia/14minerals.html?ref=james_risen)

1980s. That data was lost after they departed. Scientist also ran a study of the country after the Taliban were driven from Kabul and in 2005 identified data that indicated large mineral reserves. However, the research was halted after 2006 and not restarted until the civilian surge was announced. Now, five years after US scientists and 30 years after Russian scientists identified enough potential minerals to establish a market, international donors are focusing on ways to develop a mining industry that may provide GIRoA the necessary means to financially establish itself.<sup>32</sup>

Another essential market that has huge potential to GIRoA is the energy market. The key project in this market is the as-yet un-built Turkmen-Afghan-Pakistan-India (TAPI) and Iran-Pakistan-India (IPI) gas pipelines. These projects are delayed due to security concerns, and may be altered if security continues to be an issue. However, these operations are valuable enterprises that have willing investors and backing from the Asian Development Bank. These projects would also create jobs in the energy field and build an Afghan energy corridor or modern day silk (energy) road. The end result is expected lower fuel costs for energy-starved Afghanistan.<sup>33</sup> But time is crucial – these plans may be scrapped if security does not improve. Therefore, donors need to support the development of the energy sector and challenge GIRoA and insurgents to facilitate development. In challenging the insurgents to help develop Afghanistan, donors can make clear statements that investment will not come to Afghanistan based on the, real and perceived risk to investment. Because risks are high due to insurgent attacks, public money must be used to try to incentivize the private capital currently sitting on the sidelines. This means foreign company partnerships are not happening, despite these opportunities being a viable way to mobilize and grow Afghan business.<sup>34</sup>

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<sup>32</sup> [JAMES RISEN](http://www.nytimes.com/2010/06/14/world/asia/14minerals.html?ref=james_risen) “U.S. Identifies Vast Mineral Riches in Afghanistan” June 1, 2010 accessed at [http://www.nytimes.com/2010/06/14/world/asia/14minerals.html?ref=james\\_risen](http://www.nytimes.com/2010/06/14/world/asia/14minerals.html?ref=james_risen)

<sup>33</sup> PARAG KHANNA, “Central Asia’s New Silk Roads”, International Herald Tribune, OP ED, accessed at <http://www.nytimes.com/2010/08/13/opinion/13ihdkhanna.html?scp=1&sq=military+development+in+afghanistan+&st=nyt>, 12 Aug 2010

<sup>34</sup> Ritter, Sc.D. Hon ,”Building the Afghan Market economy” 2.

This example also shows how there is a communication gap in donor development programs. Communication is a key cross cutting component of managing markets and messages to investors, insurgents and states. Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff, identified this communications issue in one of his interviews a few months back. The chairman said, “In my opinion, in the past eight years coalition forces, particularly US troops, have failed to explain the objectives of the mission to the Afghan people. Most of the Afghan people are unaware that US military intervention in Afghanistan was the result of the attacks of 9/11 and this onslaught was planned and executed by people based inside Afghanistan. I mean the US should have appeared as victim to the Afghan people not as aggressor.”<sup>35</sup> A more robust communications strategy can also address business concerns and highlight efforts to build market strengths and development. It can encourage investment and discourage insurgents. Effects of these efforts are hard to measure and will likely be trailing indicators, but the efforts are still important.

Despite some negative economic indicators, the larger economic picture of the private sector in Afghanistan is that it is growing fast: national accounts data suggests that the industrial and service sector has doubled in size since 2005. Average revenue growth in the firms is very high—220 percent. While the overall numbers may be skewed by strong individual firms that performed very well due to donor money, the overall trend is positive. Furthermore, surveys by the World Bank suggest that this rate of growth will continue, as 77% of the surveyed firms plan to expand in the near future and result in growing markets.<sup>36</sup>

### Employment Generation

The last criteria to measure a sustainable economy is in employment generation. This area examines conditions which support jobs creation for military age youth and how well jobs establish conditions for future success.

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<sup>35</sup> Carl Eikenberry, “WEBCHAT TRANSCRIPT ON U.S. POLICY ON AFGHANISTAN WITH U.S. AMBASSADOR KARL W. EIKENBERRY AND DEPUTY AMBASSADOR FRANCIS RICCIARDONE”

<sup>36</sup> “Afghanistan Investment Climate in 2008” The World Bank, accessed at [http://www.worldbank.org.af/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/AFGHANISTANEXTN/0,,co\\_ntentMDK:22397216~menuPK:50003484~pagePK:2865066~piPK:2865079~theSitePK:305985,00.html](http://www.worldbank.org.af/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/AFGHANISTANEXTN/0,,co_ntentMDK:22397216~menuPK:50003484~pagePK:2865066~piPK:2865079~theSitePK:305985,00.html) 20 November 2009, para 3.

While the limited focus on military age youth needs to be expanded for overall employment opportunities, to include anyone that can join an insurgency or be ideologically motivated to take up arms against a state, employment as a criterion for success is not a new idea. Don Ritter, founder of the Afghan – American Foundation and the Afghan International Chamber of Commerce, who has been involved with Afghan business since the Soviet invasion, has spoken about the need for employment generation. In a recent speech to the Afghan – American Chamber of Commerce he said, “The key to security and stabilization in Afghanistan will be in the sustainable jobs, jobs, and more jobs plus the products and services produced by the private sector operating in the market economy.<sup>37</sup> Donors and GIRoA all acknowledge job creation as the major goal to establishing a sustainable economy and agreed to support GIRoAs development agenda which is focused on job creation and broad-based economic growth driven by National Priority Programs on agriculture and rural development, human resources development, and economic and infrastructure development, as agreed at the London Conference.<sup>38</sup> Those declarations led to GIRoA update of the Afghan National Development Strategy (ANDS) and the Afghan Poverty Reduction Strategy Paper (PRSP) where they identified the Economic and Social Development goals, “Reduce poverty, ensure sustainable development through a private-sector-led market economy, improve human development indicators, and make significant progress towards the Millennium Development Goals (MDGs).”<sup>39</sup>

To facilitate employment GIRoA and Donors are developing several initiatives. GIRoA Employment programs as outline in the ANDS include:

1. 10 million labor days derived from construction related activity in the EID Cluster’s flagship program: the National-Regional Resource Corridor Initiative (NRRCI);

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<sup>37</sup> Don Ritter, Sc.D. Hon , ”Building the Afghan Market economy” 3.

<sup>38</sup> NY Times Web Site, Draft Communiqué Sets 2014 as Target for Afghan Military Lead <<http://query.nytimes.com/gst/fullpage.html?res=9802E7DE113EF932A15754C0A9669D8B63&scp=1&sq=Afghanistan+economic+development+programs&st=nyt&pagewanted=3>> July 21 2010 Para 11.

<sup>39</sup> Afghanistan National Development Strategy: Prioritization and Implementation Plan Mid 2010 – Mid 2013; VOL I,” I.

2. 1 million sustainable jobs from supporting the Small and Medium-sized enterprises (SME) from increased export opportunities and import substitution; with

3. further substantial increases with successful implementation of SME support and good urban planning to build communities including around resource corridors hubs. Second round employment opportunities through growth impacts are enormous.<sup>40</sup>

Donor efforts to improve employment begin with agricultural expansion and are rounded out with infrastructure programs. USAID has a program to, “Restore Afghans Agricultural historical strengths,” and has trained over 22,000 farmers to replant and retrain the fruit and nut crops.<sup>41</sup> This effort is designed to train farmers to move beyond subsistence farming and produce crops yields that are exportable. The department has also established a robust link between schools, ministries and US Land Grant universities to teach livestock health and management. This included education and training programs facilitated by USDA.

USAID has also established programs to teach and train local workers to build and maintain infrastructure projects to improve water management, road construction and maintenance and new building construction. Through the development programs USAID has seen revenue from farming gown over 23 million dollars in the past year.<sup>42</sup>

Employment generation seems to be a lagging indicator of success. GIRoA is positioned to take advantage of training and management capacity building efforts that donors have been executing over the past 18 months. If the training and economic conditions are set, along with the minimum required security established, Afghanistan will see significant growth in infrastructure development and shortly thereafter agricultural development.

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<sup>40</sup> Afghanistan National Development Strategy: Prioritization and Implementation Plan Mid 2010 – Mid 2013; VOL I,” 24.

<sup>41</sup> USAID, “Afghanistan Agriculture Fact Sheet,” USAID, KABUL 6108 Kabul Place, Dulles VA 20189-6180 at <http://afghanistan.usaid.gov/kabulaidinformation@usaid.gov> June 2010, 1.

<sup>42</sup> USAID, “Afghanistan Agricultural Fact Sheet,” 2.

## Recommendations

Arguably, the idea of money as a weapon is beginning to work. The resources, training and results in economic growth and development are a daily reminder that insurgents cannot govern nor provide life improvements to the people of Afghanistan. As recently as last June, six militants armed with suicide bombs stormed a compound of an American contractor working for the USAID in the city of Kunduz.<sup>43</sup> The attack was notable for its destructiveness. But what was not discussed was the insurgents target and why insurgents would target those who would help the local people. Other than the moral arguments that the Aid workers are tools of the enemy, no insurgency would attack those rebuilding their country unless they found the effect those workers are having is detrimental to their ability to control the population. It seems that aid and the efforts of USAID and other donors continue to produce good will among the people of Afghanistan and develop local economic conditions that insurgents struggle to overcome.

Therefore, to continue to place economic pressure on insurgents, more development must occur. If donors are giving all they can based on their own economic situation, then the donor states need to find a way to expand joint public and private ventures to continue economic development. GIRoA must establish a new office to direct and synchronize civilian efforts in reconstruction, economic development, and political stabilization in conjunction with donor nations. The office would formalize impromptu arrangements with different Federal agencies creating unity of effort among disparate organizations.<sup>44</sup>

There is a need for this type of coordination office now. Many foreign companies already are trying to establish themselves in Afghanistan as well as those Afghan businesses that are trying to establish export operations. Yet, many of these corporations lack an understanding how local political and market

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<sup>43</sup> RICHARD A. OPPEL, "Afghan Bombers Storm U.S. Aid Office," New York Times, accessed at [http://www.nytimes.com/2010/07/03/world/asia/03afghan.html?ref=richard\\_a\\_jr\\_oppel](http://www.nytimes.com/2010/07/03/world/asia/03afghan.html?ref=richard_a_jr_oppel) July 3<sup>rd</sup> 2010.

<sup>44</sup> Matthew W. Parin, "Stabilization Operations Beyond Government: Joint Venture Public-Private Partnerships in Iraq and Afghanistan" Prism, NDU Press accessed at <http://www.ndu.edu/press/stabilization-operations-beyond-government.html>

dynamics affect foreign ventures. Moreover, many CEOs may be unaware of social, regulatory, and energy issues around the next curve in the developmental road. To mitigate these vulnerabilities, CEOs and business strategists routinely consult economic and political risk analysts from firms such as Eurasia Group and PricewaterhouseCoopers in order to make the most informed global investment decisions possible for emerging or high-risk markets.<sup>45</sup> But a formal GIRoA office speeds up the process for business development and investment by reducing uncertainty and supporting business goals. This is especially important for better regional integration as GIRoA deals with the greatest issues of water, energy, trade and transport.<sup>46</sup>

GIRoA also needs to continue its ongoing efforts to improve its budget program and tie it to the ANDS program. This brings reliability to Afghan planning and a measure of transparency to GIRoAs efforts. Large investments demand substantial resource requirements for the ANDS, and a stable macroeconomic environment to facilitate such investment.

GIRoA needs to develop and reform the ability to execute its tax and customs administration. Focus in this area should develop income for GIRoA and reduce corruption. Government control of its tax and import efforts will position business for significant growth. Short of these reforms, privet sector development will continue to be limited and dependent on agricultural production.<sup>47</sup>

These developmental efforts are all realized in the Wardak Provincial Development plan for 2009 to 2012. Local development focus' on improving communication and market access, by building and improving road access from districts to Maydan Shar and Highway 1. The province would then expand agricultural production and opportunities in Jalrez and Nerkh, which is hoped will turn the Jalrez—Nerkh—Maydan Shar disctrcts into a center for economic

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<sup>45</sup> Parin, "Stabilization Operations Beyond Government: Joint Venture Public-Private Partnerships in Iraq and Afghanistan"

<sup>46</sup> "Afghanistan: Joint Staff Advisory Note" International Monetary Fund, 9.

<sup>47</sup> "Afghanistan: Joint Staff Advisory Note" International Monetary Fund IMF Country Report No. 10/39 International Monetary Fund Publication Services, 700 19th Street, N.W. • Washington, D.C. 20431, February 2010 IMF Country Report No. 10/39 14.

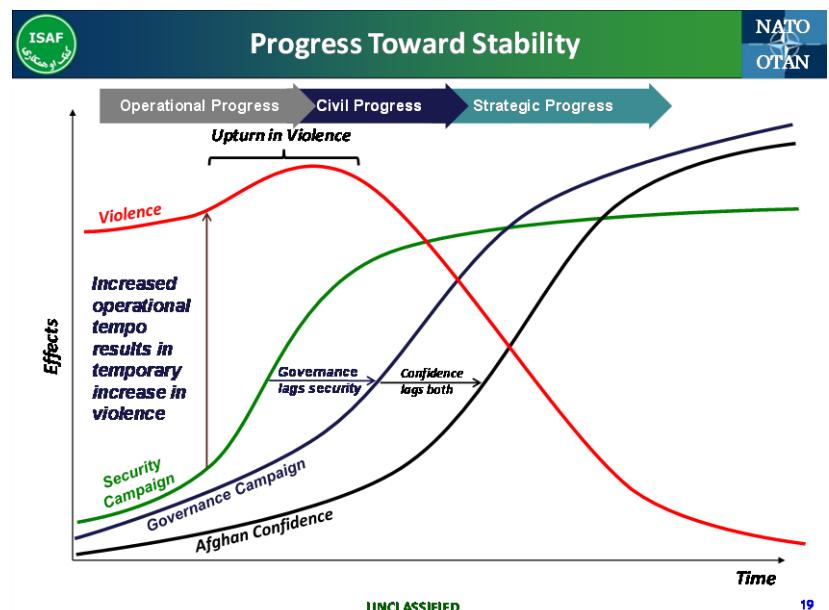
development in Wardak that is linked to the broader Kabul market. The Province will also develop water and power resources to facilitate harvesting its rich natural resources.<sup>48</sup> The results of this plan, when combine with greater security in terms of Afghan Public Protection force (AP3), Police training and ISAF forces, has been a downturn in violence and an upturn in economic activity and government capacity.

### Conclusion

The efforts to develop a sustainable economy are in line with the Guiding Principles for Stability and Reconstruction established by USAIP and PKSOI.

The programs have helped to boost Afghanistan's economy, which has grown at approximately 12 percent per year over the past six years. Continued emphasis should provide demonstrable progress within the next 18 months. As the ISAF Commander, noted in his presentation to the NATO defense ministers, governance and the

Afghan people's demonstrated confidence in the government are lagging indicators that will improve as the security improves. The economic indicators will also follow. Economic factors will improve along with the security efforts and governance efforts. Soon after that, the people will see GIRoA as a legitimate government that is working on their behalf. GIRoA just need to keep the economy driving.



<sup>48</sup> "Comprehensive Plan for USG support to Wardak Province 2009 2012," 29.



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